

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

CONFIRM

Docket No. MC2002-1

REPLY COMMENT OF UNITED STATES POSTAL SERVICE
IN SUPPORT OF SETTLEMENT
(July 12, 2002)

In accordance with Presiding Officer's Ruling No. MC2002-1/4, the Postal Service filed its Comment in support of this docket's settlement on July 9, 2002. The Office of the Consumer Advocate (OCA) and the American Postal Workers Union, AFL-CIO (APWU) also filed respective comments on that date, both supporting the Settlement Agreement. This replies briefly to those comments.

APWU's comments express concern that the costs of Confirm do not include a share of the information technology networks on which Confirm relies, and that if this is still true in later consideration of Confirm, a higher markup might be applicable. APWU comment, at 1. The Postal Service approach to costing Confirm adheres to the longstanding principle of cost causality; that is, if costs are not caused by Confirm, then it does not appropriately pay for those costs. Capital costs are depreciated, including in the test year, but some costs are not capitalized.¹ Accordingly, if analysis in a later case indicates that Confirm does cause increases in network bandwidth, for example, then the cost presentation for Confirm would necessarily change. Moreover, the future cost coverage of Confirm will necessarily be reviewed in light of the statutory criteria. As an

¹ Some recent corporate restatements of earnings underscore this point.

aside, the Postal Service notes that all postal products and services in some sense benefit from the existence of the shared information technology infrastructure. Hence, in accord with the treatment of institutional costs, all products do, in fact, pay some share of the information technology costs.

The OCA's comments relate its interest in seeing a consumer product developed that relies upon PLANET codes. OCA Comments at 1-2. The Postal Service shares this interest and has accordingly agreed to provide information at a later time that bears on progress towards a consumer oriented product. The OCA further describes its support for the DMCS language embodied in the Settlement Agreement. *Id.* at 2-3.

The OCA then goes on to describe a compilation of CONFIRM data it believes should be created. *Id.* at 3-5.² While the OCA claims the reports it wants can be created "at nearly negligible" cost, (*id.* at 4), the only record evidence in this case supports a contrary conclusion. At its heart, the OCA's suggestions appear to require longer retention of scan information. The volume of scan information for which Confirm has been sized requires two sets of servers, each of which costs several hundred thousand dollars. See USPS-LR-2/MC2002-1 at Input Sheet A-7. Longer retention obviously would require additional, costly resources. The OCA's mistaken assertion is probably understandable, however, because the complexity of large systems development is not widely understood..

The thrust of OCA's pitch, that the Postal Service appears to be creating a tool

² The OCA quotes, at 2, part of an interrogatory response. It should be noted that the italicized emphasis in that quotation was not from the original, but is the OCA's own.

whose use extends beyond Confirm customers, is well taken. The Postal Service certainly expects that will be correct. Current uses of Confirm data by customers to manage their businesses, and by both customers and the Postal Service to examine operations, do not comprise the outer limits of utilization. As referenced for example by witness Nieto, a separate infrastructure, Confirm Mail Operations Reporting (CMOR) for analyzing operations, is also being funded and built. USPS-T-3, at 15. Other postal organizations are likely to recognize potential benefits of Confirm scan data and invest accordingly. But absent a business need that drives the retention of more than 15 days of scans, additional resources for retaining scan information are not expected. Unlike the Confirm Electronic Post Offices whose costs are caused by Confirm, those other uses benefit from but are not caused by Confirm.

The only comments provided to the Commission on the Settlement Agreement are favorable and include the DMCS language attached to it. Accordingly, the Postal Service requests that the Postal Rate Commission forthwith issue a favorable Opinion and Recommended Decision for action by the Governors and the Board of Governors.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Kenneth N. Hollies

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